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LEGISLATIVE RESEARCH COMMISSION

REPORT
TO THE
1979

GENERAL ASSEMBLY OF NORTH CAROLINA



FINANCING OF WATER RESOURCES
DEVELOPMENT PROJECTS

RALEIGH, NORTH CAROLINA

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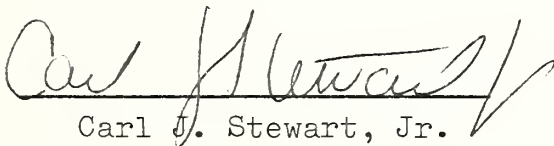
January 10, 1979

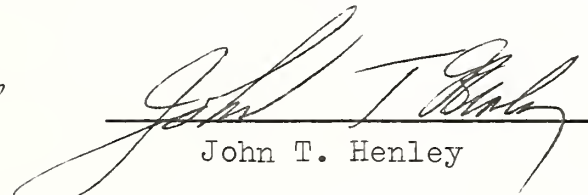
TO THE MEMBERS OF THE 1979 GENERAL ASSEMBLY:

The Legislative Research Commission herewith reports to the 1979 General Assembly of North Carolina on the matter of the Financing of Water Resources Development Projects. The report is made pursuant to House Joint Resolution 1409 of the 1977 General Assembly.

This report was prepared by the Legislative Research Commission Committee on the Financing of Water Resources Development Projects and it is transmitted by the Legislative Research Commission to the members of the 1979 General Assembly for their consideration.

Respectfully submitted,


Carl J. Stewart, Jr.


John T. Henley

Cochairmen
Legislative Research Commission



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INTRODUCTION

The Legislative Research Commission, created by Article 6B of Chapter 120 of the General Statutes, is authorized pursuant to the direction of the General Assembly "to make or cause to be made such studies of and investigations into governmental agencies and institutions and matters of public policy as will aid the General Assembly in performing its duties in the most efficient and effective manner" and "to report to the General Assembly the results of the studies made," which reports "may be accompanied by the recommendations of the Commission and bills suggested to effectuate the recommendations." G.S. 120-30.17. The Commission is co-chaired by the Speaker of the House and the President Pro Tempore of the Senate and consists of five Representatives and five Senators, who are appointed respectively by the Co-Chairman. G.S. 120-30.10(a).

At the direction of the 1977 General Assembly, the Legislative Research Commission has undertaken studies of twenty-seven matters, which were arranged into ten groups according to related subject matter. See Appendix A for a list of the Commission members. Pursuant to G.S. 120-30.10(b) and (c), the Commission Co-Chairmen appointed committees consisting of legislators and public members to conduct the studies. Each member of the Legislative Research Commission was delegated the responsibility of overseeing one group of studies and causing the findings and recommendations of the various committees to be reported to the Commission. In addition, one Senator and one Representative from each committee were designated Co-Chairmen. See Appendix B for a list of the committee members.

House Joint Resolution 1409, which was ratified on July 1, 1977, directed the Legislative Research Commission to study State and local financial participation in water resources development projects for water supply, flood control, drainage, navigation, beach protection, and recreation. The Legislative Research Commission was directed to consider: (1) the types of projects, project purposes, and project cost components to which the State should contribute financially; (2) the percentage of the nonfederal cost to be paid by the State and that to be paid by local governments, sponsors, or beneficiaries for each project type, purpose, or cost component; (3) the best method of financing State and local contributions to water resources development projects; and (4) procedures to be followed by the General Assembly in authorizing State financial participation in and appropriating funds for water resources development projects. See Appendix C.

During the 1975-77 interim period the Legislative Research Commission conducted a study of water projects priorities pursuant to the directives contained in House Joint Resolution 1195 (Resolution 118, 1975 Resolutions). See Appendix D. Because of time and budgetary limitation, the Committee on Water Projects Priorities was not able to conduct a careful analysis of all of the topics outlined in the study directives, which included virtually every aspect of water resource management. The following is from the recommendations contained in that Committee's report to the 1977 General Assembly:

"Further study should be undertaken on the nature and extent of needs for additional state and local financial participation in water resource projects."

Alternative methods for financing water resource projects of all kinds is so broad and complex a subject that the Committee would have been able to give it only cursory treatment had it expended all available time and resources to this single topic. The Committee, however, was able to devote only enough attention to this matter to conclude that the subject warranted extensive, in-depth examination."

It was therefore contemplated that a study of the subject of financing water resources development projects would be undertaken during the 1977-79 interim period, and House Joint Resolution 1409 was introduced, considered, and enacted in order to provide for this study.

COMMITTEE PROCEEDINGS

The Committee on Financing of Water Resources Development Projects held its first meeting on December 2, 1977, at the State Legislative Building. The Committee members were given copies of the 1977 report of the Committee on Water Projects Priorities and were briefed on the findings and recommendations made by that study group. Mr. H. A. (Jack) Smith, Deputy Secretary of the Department of Natural Resources, and Community Development, updated the Committee on the activities of the Department related to water resources development that had been conducted since the completion of the study on water projects priorities. He told the Committee that the Department had updated the inventory of water resources projects in all stages of planning and construction and had initiated a process of obtaining three to five-year projections of requirements for nonfederal contributions to projects in the planning stage from the U.S. Army Corps of Engineers

and the Soil Conservation Service. He also mentioned that the Department had commenced work on comprehensive legislation that would cover policies and procedures for State financial participation in all types of water resources development projects.

Mr. Earle B. Merrill of the Corps of Engineers commented on the need for legislation and firm contracts and expressed concern over the tightening of financial participation requirements, noting that the Federal Government will not accept letters of intent from the State that contain contingent language.

Dr. Neil Grigg, Director of the Water Resources Research Institute, stated that he felt the trend was moving away from federal financing of water resources development projects and thought the Committee needed to consider increased State involvement.

Mr. Dan McDonald, Department of Natural Resources and Community Development, said he thought that increasing the role of the General Assembly to approve and authorize water projects after Congressional authorization and then to finance the projects on an annual basis (similar to the Congressional funding method) would be worthy of consideration.

Colonel George Pickett, representing the North Carolina Water Resources Congress, stated that some method of cost-sharing would have to be developed and suggested either taxation or fees, or a combination thereof.

Mr. Lynn A. Brown, U.S. Soil Conservation Service, said there would probably be a problem with having enough water for industrial, municipal, and agricultural needs. He also stated that another problem concerning soil conservationists was the failure on the part of local governments to maintain certain projects.

The Committee then turned to a discussion of matters that should be considered at future meetings. Mr. Smith said the Department had suggested that the first category for consideration would be examining the various elements of cost in the different projects and considering which of those nonfederal costs should be borne by the State. In closing Mr. Smith said his staff would be willing to bring to the next meeting some fiscal projections on the matter of assumption of nonfederal costs by the State.

The next meeting was held on February 24, 1978, at the State Legislative Building. Mr. H. A. (Jack) Smith, Deputy Secretary of the Department of Natural Resources and Community Development, was recognized for a presentation. Mr. Smith's presentation appears in Appendix E.

Responding to questions from the Committee, Mr. Smith stated that a binding contract would take care of a local and federal cost-sharing plan, and that it would be better to implement the Department's proposals by statute as opposed to administrative regulations. Continuing his remarks, Mr. Smith said that North Carolina ranked 14th in federal funds received under the U. S. Soil Conservation Service small watershed projects program (P.L. 566), and would stand a better chance of getting more federal money if it would meet all of its nonfederal responsibilities.

At the afternoon session of February 24, 1978, the members of the House Water and Air Resources Committee and the Senate Natural and Economic Resources Committee attended for the purpose of being reacquainted with the water resources development projects that are pending in North Carolina.

Colonel Adolph Hight, Wilmington District Engineer, U. S. Army Corps of Engineers, was recognized for a presentation that

included slide illustrations. The presentation consisted of the Corps' areas of jurisdiction, the process of planning and implementing projects, federal and state and local roles in the projects, and the federal program for fiscal year 1978-79 in North Carolina. Colonel Hight then reviewed the various projects in which the Corps of Engineers was engaged.

The next presentation was made by Colonel William W. Brown, Charleston District Engineer, U. S. Army Corps of Engineers, and was supplemented by slides. Colonel Brown stated that Corps of Engineers' districts are not contiguous with state boundaries, and therefore the Charleston District's area of responsibility includes about one-third of North Carolina. Colonel Brown then reviewed the Charleston District program and projects in North Carolina and spoke briefly on expenditures in fiscal year 1977-78 for construction, studies, flood plain management services, operations and maintenance, and special projects.

Mr. Jesse Hicks, State Conservationist, U. S. Soil Conservation Service, was the next speaker. Mr. Hicks informed the Committee about the Soil Conservation Service's water resource projects in North Carolina, including soil and water conservation, sediment control, flood prevention, recreation, and municipal water supply. He stated that the Soil Conservation Service had divided its water resource work into four areas: flood hazard studies (including flood insurance studies for HUD), river basin studies, RC&D projects, and small watershed projects. Mr. Hicks then detailed the Service's activities in these areas, supplementing his presentation with slides.

The last speaker was Dr. Neil Grigg, Director of the Water Resources Research Institute. He explained the role and activities

of the Institute, which is a unit of the University of North Carolina, and conducts research and disseminates technical information throughout the State in the areas of (1) water resources planning and management and (2) environment impact and water quality.

The next Committee meeting was held on April 14, 1978, at the State Legislative Building. Mr. H. A. (Jack) Smith was recognized for a statement. Mr. Smith discussed the matter of financing methods for waters development projects. He explained the difference between cost-sharing (the apportionment of costs among governmental entities) and financing (the method by which cost-sharing participants raise funds for their shares). In the matter of financing methods, Mr. Smith stressed that beach protection and small watershed projects were extremely important concerns.

Mr. Smith introduced Mr. Richard Folsche, with the U. S. Soil Conservation Service, for a review of financing methods used for small watershed projects. Mr. Folsche brought out the fact that watershed sponsors secure most of their funds from local sources, for example, watershed improvement districts, county watershed taxes, drainage districts, and county general funds.

Mr. Milton Heath, Institute of Government, was recognized for his remarks pertaining to some flexibility in the methods of financing some of the small watershed projects. He commented on three statutory mechanisms that have been utilized in the past to finance projects on local levels in North Carolina: The Drainage District Law, the Small Watershed Law, and the County and City Service Districts Law.

Mayors Robert Sawyer of Wrightsville Beach and Ted Seawell of Carolina Beach spoke briefly on local governments' views of financing beach protection projects and the tremendous expenses involved in those projects.

Mr. John Hooten, Community Assistance Division, Department of Natural Resources and Community Development, was the next speaker. One of the main points brought out by Mr. Hooten was the fact the imposition of any occupational or user taxes on rental property for the purpose of financing any projects would require legislative authorization.

The final speaker at the April 14 meeting was Mr. Jake Wicker, Resources Development Projects, Institute of Government, who spoke on financing water and sewerage services. Mr. Wicker outlined the sources of funds for financing water and sewerage services. Mr. Wicker outlined the sources of funds for financing water and sewerage services, patterns of finance, that is, sources of funds and elements of system costs for self-supporting systems, and the risks taken by the State and local governments. He stated that the suggestion had been made that the State fund large water and sewerage projects when it is impossible for local governments to do so, and that it would also be helpful to have separate waste water authority.

The next Committee meeting was held on November 10, 1978, at the State Legislative Building. The Committee had invited the Secretary of the Department of Natural Resources and Community Development, Mr. Howard Lee, to give the final recommendations of his Department regarding the subjects assigned to this Committee to be studied.

Mr. John Morris, of the Department of Natural Resources and Community Development, informed the Committee that Mr. Lee regretted that he was unable to attend the meeting and that he, Mr. Morris, would give the Department's recommendations on this matter. The accompanying letter and recommendations are found in Appendix I.

Mr. Morris first outlined the types of projects to which the Department felt that the State should contribute financially and the percentage share of this contribution. He noted that the current State policies were established on a piecemeal basis over a long period of time and that there is no clear, comprehensive statutory or administrative statement of State cost sharing policies.

The Department proposed that the General Assembly adopt a clear and fair policy on cost sharing so that all participants in water resources development projects -- localities, the State, and the Federal government -- have a sound State policy to guide their actions. Mr. Morris noted that in 1978 the General Assembly established such a policy for small watershed projects carried out under the authority of the U.S. Soil Conservation Service (Chapter 1206, of the 1977 Session Laws (Second Session, 1978), House Bill 1224). Under past policy, the State had provided only 80% of the non-federal share of construction costs for these projects. The new law lowered the State contribution for construction costs to 50% but extends State aid to 50% of the cost of land rights, engineering fees, water supply and recreation facilities of these projects. The Department's recommendations on present and proposed State cost-sharing policies are found on Page I-5.

Senator Smith objected to increasing the localities share of the cost for beach protection of privately-owned beaches with provision for public access from 80% State and 20% Localities to 20% State and 80% Localities. Senator Smith recommended a gradual withdrawal of State funding from these projects.

Mr. Ted Seawell, Mayor of Carolina Beach, distributed pictures of the deterioration of the shore line at Carolina Beach over the last year. He suggested that the percentage formula offered by the Department is inadequate and would result in great economic loss to his area.

The Committee also objected the Department's recommendation that the present cost sharing formula for drainage projects (stream channel improvements) of 80% State and 20% locality be changed to 50% for each government unit. The Committee agreed to recommend that the formula be changed to 66 2/3% State funding and 33 1/3% local government funding for these projects and that the amended formula would apply to both Corps of Engineers and Soil Conservation Service projects.

The second area addressed by Mr. Morris was the ways in which the participants might raise the necessary funds to pay for these projects. Specifically the Department recommended that the Committee address the problems faced by localities in raising funds for two types of projects -- major beach protection projects and small watershed and flood control projects.

Among the ideas discussed for funding the locality's share of beach protection projects were special property assessment zones based on the degree of erosion hazard and the benefits received, special taxes on motel and restaurant bills, and an additional

one cent sales tax. The funds derived from these revenues would be dedicated to a permanent beach protection fund. Mr. Seawell said that he believed that the special taxes mentioned by Mr. Morris should be county-wide.

Concerning the financing of the locality's share of the costs of small watershed and flood control projects, Mr. Morris told the Committee that there were presently two ways to finance these projects.

G.S. 156-54 et seq., on drainage districts, provides for a system of assessing charges on landowners according to the amount of land owned and the degree of benefits received. G.S. 139-1 et seq., concerning soil and water conservation districts, permits a county-wide referendum to finance watershed project construction with county general revenues.

The Department recommended that the General Assembly amend the county and municipal service district laws (G.S. 153A-301 et. seq. and 160A-535 et seq.) to permit the establishment of service districts to finance small watershed and drainage costs. Mr. Morris said that Mr. Heath had already drafted legislation to accomplish this and that this legislation would be presented to the Committee at a later date.

The third area touched upon by Mr. Morris in his presentation was the necessity to improve and clarify the method by which the State should commit itself to funding water resources projects. The present law governing this matter is contained in G.S. 143-215.40 and 41. The Department's specific recommendations are found at Pages I-8 and 9 of the Appendices.

At the December 11, 1978, meeting the Committee on the Financing of Water Resources Development Projects reviewed and approved for submission to the Legislative Research Commission the report prepared by the staff.

FINDINGS AND RECOMMENDATIONS

The Legislative Research Commission's Committee on Financing of Water Resources Development Projects, after considering the presentations made before it and evaluating current State policies and practices, makes the following findings and recommendations on its three major areas of study:

Cost Sharing Policies

The U. S. Army Corps of Engineers and the U. S. Soil Conservation Service have Congressionally-established policies on cost sharing. Different cost sharing policies are in effect for different purposes, such as flood control, navigation, and drainage. Cost sharing policies also differ among project cost elements, such as construction, lands, engineering, operation, and maintenance. The application of these federal cost sharing rules to each specific project leaves a nonfederal cost share to be paid by the State, local governments, project beneficiaries, or a combination of these.

Current State policies on cost sharing were established piecemeal over a long period of time. There is no clear, comprehensive statutory or administrative statement of our State cost sharing policies, which leaves participants in the planning and implementation of water resources projects in doubt about the level of State financial support that may be expected. In some cases our policies are inconsistent or inequitable. North Carolina needs to adopt a

clear, fair, and up-to-date policy on cost sharing so that all participants -- local, State, and federal -- may have a sound State policy as a guide for their actions.

The Committee believes that State cost sharing policies should be based on the following principles:

1. State financial contributions to water resources development projects are justified by their contribution to the wise management of our water resources and to the State's long range economic development goals.
2. Local governments need State financial assistance with water resources projects because of the large sums of capital funds required for the initial development of these projects.
3. Projects with similar purposes should be eligible to receive assistance without regard to the particular federal agency involved or the specific project measures used to accomplish the purposes.
4. For projects with primarily local benefits, the beneficiaries or their local governments should pay a somewhat higher share of the nonfederal cost than for projects with broad regional benefits.

By applying these principles to current State cost sharing policies, the following problem areas have been identified:

1. The Soil Conservation Service small watershed projects (PL 83-566) provide for flood prevention and drainage to improve agricultural productivity and to prevent flood damages. Under past policy, the State assists projects which involve stream channel modification because most of these have a nonfederal construction cost. The State has not assisted projects that use impoundments for flood prevention, because these projects do not have a nonfederal construction cost; impoundment projects, however, do have large nonfederal land acquisition and other costs.
2. Drainage, small flood control, beach protection, and recreational navigation projects have primarily local benefits. It is desirable for local governments to bear a somewhat larger share of the nonfederal cost of these projects as compared to projects with more widely-distributed benefits.

3. General navigation, large scale flood control, and State-operated recreation projects provide economic benefits over a wide region. A larger State cost share is justified for these projects than for those listed under item 2 above.

The 1978 session of the 1977 General Assembly enacted HB 1224 (codified as G.S. 139-53 through G.S. 139-57), which responds to some of the problems identified above. This act provides a statutory basis for State financial assistance to small watershed projects carried out under the authority of the U. S. Soil Conservation Service pursuant to PL 83-566. Under past policy, the State had provided 80 percent of the nonfederal cost of construction costs only. The new act lowers the State contribution to construction costs to 50 percent, but extends State aid to 50 percent of the cost of land rights, engineering fees, water supply, and recreation facilities, and to 75 percent of the cost of the conservation and replacement of fish and wildlife habitats. The Committee's cost sharing recommendations which follow are consistent with HB 1224, with the exception of costs allocated to drainage. The Committee recommends a $66 \frac{2}{3}$ percent State share for drainage rather than 50 percent as in HB 1224. Further action by the General Assembly is still needed to improve cost sharing policies in areas not covered by HB 1224.

Consistent with these principles and conclusions, the Committee proposes changes in State cost sharing policy as shown in the table in Appendix J. In each case, the figures are percentages of the nonfederal share of project cost or percentages of total project cost where there is no federal involvement. The proposed State share is a maximum allowable percentage, which could be adjusted downward

if made necessary by a funding shortfall or other reasons. Appendix K includes proposed legislation to establish State cost sharing policies in areas not covered by HB 1224 and to amend HB 1224 in the single area of drainage costs.

Financing Methods

After the State and local cost share of each project is established, each participant must raise the necessary funds. The commonly used methods of public finance that are available for consideration include general revenues, special taxes or assessments, general obligation bonds, revenue bonds, and user charges.

The choice of financing methods is as significant an issue in public policy as the cost sharing issue. Our financing methods should be equitable and therefore established in consideration of the distribution of benefits received from public expenditures and ability to pay. Financing methods should also be practical and administratively feasible. Finally, financing methods must be acceptable to the public. The application of these general principles, which are not completely consistent among themselves, is of course difficult.

Within the subject area of financing methods, two specific types of projects need the most attention. Major beach protection projects require large financial contributions by local governments. The construction of these projects depends upon the ability of local governments to raise their share of project costs. Small watershed projects and small flood control projects also require sizable contributions by units of local government. The magnitude of the costs for these projects is increasing greatly due to the inflation of costs for land and construction. A number of beach towns have

taken the lead in actively researching new financing methods that are appropriate for beach protection expenditures in vacation communities.

Noting this, the Committee recommends legislation that would (1) provide for the creation of special property assessment zones based on the degree of erosion hazard and the benefits received and (2) enable local governments to levy an additional one percent sales and use tax for purposes of hurricane protection and beach erosion control. The revenue from these special taxes would be dedicated to permanent beach protection funds for local cost shares of project construction and periodic maintenance.

The Committee believes that beach communities must make systematic long-range financial plans for the local cost burden if they desire to participate in beach protection projects. The choice of the method of taxation used for this purpose should be made by each local government according to local preferences and the nature of the local economy. Coastal communities should be commended for the positive action they have taken to study and develop proposals for new local financing methods for beach protection.

Financing the local cost share of small watershed projects and small flood control projects is the other problem area identified by the Committee. Under existing statutes, there are two ways to finance these projects. The law on drainage districts (G.S. 156-54 et seq.) provides a method of establishing a drainage district organization, determining the relative degree of benefits provided to lands within the district by categories, and assessing charges on each landowner according to the amount of land owned and the degree of benefits received. The drainage district law can work well, but

it requires large legal and engineering costs to establish districts and benefit classifications. High costs and attendant delays have been serious obstacles to some project sponsors.

The soil and water conservation district laws (G.S. 139-1 et seq.) allow for a county-wide referendum to finance watershed project construction with county general revenues. Many counties have been successful with the county-wide approach; in some cases, however, voters are reluctant to approve county funds for a project that will benefit only a portion of the county.

To offer local governments more options in financing projects, the following approach is recommended:

1. State legislation on county and municipal service districts (G.S. 153A-301 et seq. and 160A-535 et seq.) authorizes the creation of districts for a number of purposes such as rescue service, beach protection, etc. Authority to establish service districts to finance small watershed and drainage costs should be added to the permitted purposes in the acts.
2. In the area of flood control and watershed projects, as with beach protection projects, the Committee believes that local governments should have a wide choice of financing methods to meet local needs. Proposed bills to enable local governments to use additional means of financing flood control, drainage, and beach protection projects are included in Appendix L.

Authorizing and Appropriating State Funds for Projects

The method by which the State commits funds to water resources projects needs to be improved and clarified in some areas.

State participation in federal water resources development projects is authorized by G.S. 143-215.40 and 143-215.41. Since the passage of this act, the assignment of responsibilities in State government has been greatly modified by the Executive Organization Acts of 1971 and 1973. The nature of the commitments required of the State has also been changed by federal law. The Committee recommends

modification of these two statutes as follows:

1. The authority of the Environmental Management Commission to provide assurances of state cooperation under G.S. 143-215.41 should be transferred to the Governor and the Secretary of the Department of Natural Resources and Community Development.
2. The list of authorized assurances in G.S. 143-215.41 should be expanded to include contracts for cost-sharing, as now required by federal legislation.
3. The provision that letters of assurance "irrevocably bind" the state and localities should be modified to be consistent with the qualified commitments that are currently undertaken.

A proposed bill to amend G.S. 143-215.40 and 143-215.41 that is consistent with these recommendations is included in Appendix M.

In addition to participation in federally-assisted projects, the Department of Natural Resources and Community Development has a program of small project construction in cooperation with local governments without federal assistance. The former Board of Water and Air Resources traditionally approved allocations of funds for the projects. A recent opinion from the Attorney General's Office has indicated that this responsibility is assigned to the Secretary of Natural Resources and Community Development, rather than to the Environmental Management Commission (the successor to the Board). In any case, review and approval by the Advisory Budget Commission is required to transfer funds to a project account from the reserve account. The Committee recommends that the Secretary continue to exercise his budget management responsibility under the Executive Organization Acts of 1971 and 1973, subject to the review and approval of the Advisory Budget Commission.

Appendix A
STATE OF NORTH CAROLINA
LEGISLATIVE RESEARCH COMMISSION
STATE LEGISLATIVE BUILDING
RALEIGH 27611



MEMBERSHIP

1977-1979

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House Speaker Carl J. Stewart, Jr.
Gastonia

Senate President Pro Tempore John T. Henley
Hope Mills

Members:

Representative Chris S. Barker, Jr.
New Bern

Senator Dallas L. Alford, Jr.
Rocky Mount

*Representative A. Hartwell Campbell
Wilson

**Senator Russell G. Walker
Asheboro

Representative John R. Gamble, Jr.
Lincolnton

Senator Cecil J. Hill
Brevard

Representative H. Parks Helms
Charlotte

Senator Robert Byrd Jordan, III
Mt. Gilead

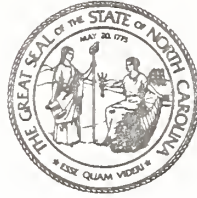
Representative Lura S. Tally
Fayetteville

Senator Vernon E. White
Winterville

*Replaced Representative Thomas O. Gilmore in 1978.

**Replaced Senator Luther J. Britt, Jr., in 1978

Appendix B
STATE OF NORTH CAROLINA
LEGISLATIVE RESEARCH COMMISSION
STATE LEGISLATIVE BUILDING
RALEIGH 27611



COMMITTEE ON FINANCING WATER RESOURCES DEVELOPMENT PROJECTS

1977-1979

Legislative Research Commission Member Responsible for Study:

Representative A. Hartwell Campbell
Wilson

Committee Cochairmen:

Representative Vernon G. James
Elizabeth City

Senator William Grey Smith
Wilmington

Committee Members:

Representative J. Worth Gentry
King

Senator George W. Marion, Jr.
Dobson

Representative Robie L. Nash
Salisbury

Senator William D. Mills
Swansboro

Resolutions—1977

H. R. 1409

RESOLUTION 95

A JOINT RESOLUTION TO PROVIDE FOR A STUDY BY THE
LEGISLATIVE RESEARCH COMMISSION CONCERNING THE
FINANCING OF WATER RESOURCES DEVELOPMENT PROJECTS.

Be it resolved by the House of Representatives, the Senate concurring:

Section 1. The Legislative Research Commission is hereby directed to conduct a study concerning State and local financial participation in water resources development projects for water supply, flood control, drainage, navigation, beach protection and recreation. The study shall include water resources development projects sponsored by the U.S. Army Corps of Engineers, the U.S. Soil Conservation Service, and the Tennessee Valley Authority, as well as those carried out by State and local government without federal participation. Consideration shall be given to:

(a) the types of projects, project purposes and/or project cost components to which the State should contribute financially;

(b) for each project type, purpose, or cost component, the percentage of the nonfederal cost to be paid by the State and that to be paid by local governments, sponsors, or beneficiaries;

(c) the best method of financing State and local contributions to water resources development projects;

(d) procedures to be followed by the General Assembly in authorizing State financial participation in water resources development projects and in appropriating funds for these projects.

Sec. 2. The Commission shall report to the 1979 General Assembly, and it may submit an interim report to the 1977 General Assembly, Second Session 1978.

Sec. 3. This resolution shall become effective upon ratification.

In the General Assembly read three times and ratified, this the 1st day of July, 1977.

Appendix D

Resolutions—1975

H. R. 1195 RESOLUTION 118

A JOINT RESOLUTION TO PROVIDE FOR THE WISE DEVELOPMENT OF THE WATER RESOURCES OF THE STATE OF NORTH CAROLINA FOR THE ECONOMIC AND OVERALL WELL-BEING OF ITS CITIZENS, AND TO PROVIDE FOR THE ESTABLISHMENT OF A PROCEDURE FOR THE PRIORITY BUDGET PROGRAMMING FOR THE STATE SHARE OF THE COST OF THE CONSTRUCTION, MANAGEMENT AND OPERATION OF SUCH PROJECTS.

Whereas, the wise development of the water resources of the State is essential to industry and other uses necessary for the economic well-being and development of the State; and

Whereas, water resources development projects provide municipal water supply which includes the water necessary for domestic and other essential uses by its citizens; and

Whereas, water resources projects provide for the sustenance and habitat for fish and wildlife and for other water based recreational activities for the enjoyment of its citizens; and

Whereas, water resources projects are essential for the protection of the life, health and property of its citizens against disastrous flood and droughts;

Now, therefore, be it resolved by the House of Representatives, the Senate concurring:

Section 1. The Legislative Research Commission is hereby directed to conduct a study on the following matters:

(1) To establish a procedure for obtaining State approval of public works projects as proposed by federal and other governmental and private agencies. Such procedures should distinguish between major and minor projects and establish different procedures for dealing with each.

(2) To evaluate present practices with respect to the split between State and local portions of the nonfederal share of projects and recommend a feasible formula for varying degrees of State participation based upon the nature and distribution of benefits to State, local or private interests.

(3) To establish a procedure for the budgetary programming for the State's share of the cost of these projects.

(4) To evaluate such other aspects of the problem as are relevant and report recommendations on these.

Sec. 2. The Legislative Research Commission shall submit an interim report to the General Assembly of its study and recommendations, if any, on or before January 15, 1976, and a final report on or before January 15, 1977.

Sec. 3. This resolution shall become effective upon its ratification.

In the General Assembly read three times and ratified, this the 25th day of June, 1975.

Appendix E

Department of Natural Resources and Community Development
Recommendations
to the
Legislative Committee on Financing Water Resources Development Projects
February 24, 1978

The Joint Resolution creating the Committee on Financing Water Resources Development Projects directs it to study State and local financial participation in water resources development projects for water supply, flood control, drainage, navigation, beach protection, and recreation. The subject of the study includes projects sponsored by the U. S. Army Corps of Engineers, the U.S. Soil Conservation Service, and the Tennessee Valley Authority, as well as those carried out by State and local government without federal participation. The specific questions to be addressed are:

1. The types of projects to which the State should contribute financially and the percentage share of this contribution.
2. The best methods of financing State and local contributions to water resources development projects.
3. Procedures for authorizing and appropriating funds for projects.

The Committee has chosen to take up these three topics at successive meetings. The present background materials and recommendations apply to the first topic only.

The U.S. Army Corps of Engineers and the U.S. Soil Conservation Service have congressionally-established policies on cost sharing. Different cost sharing policies are in effect for different purposes, such as flood control, navigation, drainage, and so forth. Cost sharing policies also differ among project cost elements, such as construction, lands, engineering, and operation and maintenance. The application of these federal cost sharing rules to each specific project leaves a non-federal cost share to be paid by the State, local governments, project beneficiaries, or a combination of these.

Current State policies on cost sharing were established piecemeal over a long period of time. There is no clear, comprehensive statutory or administrative statement of our State cost sharing policies, which leaves participants in the planning and implementation of water resources projects in doubt about the level of State financial support that may be expected. In some cases our policies are inconsistent or unequitable. North Carolina needs to adopt a clear, fair, and up-to-date policy on cost sharing so that all participants - local, State, and federal - may have a sound State policy as a guide for their actions.

The Department of Natural Resources and Community Development believes that State cost sharing policies should be based on the following principles:

1. State financial contributions to water resources development projects are justified by their contribution to the wise management of our water resources and to the State's long range economic development goals.

2. Local governments need State financial assistance with water resources projects due to the large sums of capital funds required for the initial development of these projects.
3. Projects with a similar purpose should be eligible to receive assistance without regard to the particular federal agency involved or the specific project measures used to accomplish the purpose.
4. For projects with identifiable beneficiaries, these beneficiaries or their local governments should pay a somewhat higher share of the non-federal cost than for projects with broad regional benefits where specific beneficiaries cannot be easily identified.

By applying these principles to current State cost sharing policies, the following problem areas have been identified:

1. The Soil Conservation Service small watershed projects (PL 566) provide for flood prevention and drainage to improve agriculture productivity and to prevent flood damages. Under current policy, the State assists projects which involve stream channel modification because most of these have a non-federal construction cost. The State does not assist projects under this same program and for the same purpose which use impoundments for flood prevention, because these projects do not have a non-federal construction cost. Impoundment projects do have large non-federal land acquisition and other costs, however.
2. Drainage, small flood control, beach protection, and recreational navigation projects have regional benefits but also identifiable beneficiaries. It is feasible to recover a somewhat larger share of the cost of these projects from property taxes, sales taxes, assessments, or fees in the benefited area.
3. General navigation, large scale flood control, and State-operated recreation projects provide economic benefits over a wide region. Specific beneficiaries of these projects are hard to identify or hard to reach by taxes or fees.

Consistent with these principles and conclusions, the Department proposes consideration of changes in State cost sharing policy as shown in the following table. In each case, the figures are percentages of the non-federal share of project cost or percentages of total project cost where there is no federal involvement. The proposed State share is a maximum allowable percentage which could be adjusted downward if made necessary by a funding shortfall or other reasons. Future topics to be considered by this Committee will have many interrelationships with the present cost sharing recommendations. After the completion of the investigation of the whole subject, the Department may revise some of these recommendations before submitting a comprehensive report to the Committee.

Present and Proposed State Cost-Sharing Policy

	<u>Present</u>		<u>Proposed</u>	
	<u>State</u>	<u>Local</u>	<u>State</u>	<u>Local</u>
NAVIGATION				
General				
State-sponsored	100%	0	100%	0
Local-sponsored	80%	20%	80%	20%
Recreation	80%	20%	50%	50%
FLOOD CONTROL				
Land Rights	0	100%	50%(1)	50%
DRAINAGE				
Construction	80%	20%	50%(2)	50%
BEACH PROTECTION				
State-owned land and facilities	100%	0	100%	0
Privately-owned beaches with provision for public access	80%	20%	50%	50%
Privately-owned beaches without provision for public access	0	100%	0	100%
RECREATION				
Major State-operated recreation areas	100%	0	100%	0
Recreation facilities at major Corps impoundments operated by local governments				
Land	No policy		100%	0
Facilities	No policy		50%	50%
Recreation facilities at PL 566 projects operated by local sponsors	0	100%	50%(3)	50%
Mitigation for loss of fish and wildlife	0	100%	75%	25%
WATER SUPPLY				
Future water supply storage in flood prevention projects	0	100%	75%	25%

Notes: (1) For impoundments only. No contribution for stream channel modification land rights.
 (2) To include utility relocations and road relocations not funded by the Department of Transportation.
 (3) To include land and facilities.

Appendix F

STATEMENT TO THE LEGISLATIVE COMMITTEE
ON
FINANCING WATER RESOURCES DEVELOPMENT PROJECTS
H.A. SMITH, DEPUTY SECRETARY
DEPARTMENT OF NATURAL RESOURCES & COMMUNITY DEVELOPMENT

April 14, 1978

The Department of Natural Resources and Community Development is again happy to appear before your Committee as you continue your assignment of developing State policies for financing water resources development projects.

At the last meeting of the Committee, the subject of discussion was cost sharing policies for the non-federal share of project cost. That is, for each type of project or each category of non-federal cost, what share should be paid by the State and what share by local governments or beneficiaries? We presented some recommendations for your consideration in this area.

Today the topic of discussion is financing methods for water resources development projects. The terms cost sharing and financing are sometimes used in a broad sense without a sharp distinction between them. But for the purposes of this Committee's work we want to define what we mean by the two terms.

By the term "Cost Sharing", we mean the division of cost among the parties that ultimately bear this cost - where the money really comes from after all payments are made. We will use the term "financing" to refer to the methods used by participants to raise money to make these payments. The commonly used methods of public finance that we have available to consider include general revenues, special taxes or assessments, general obligation bonds, revenue bonds, and user charges.

We regard the choice of financing methods as an equally important question as that of cost sharing policies. After the proper cost shares for State and local governments are determined, each participant has to decide how its share will be raised. Our financing methods should be equitable, that is they should place the burden of public expenditures according to our accepted concepts of benefits received and ability to pay. Of course the application of these concepts is not simple or easy. Our financing methods should also be practical and administratively feasible, so that funds can be raised in a timely fashion. Finally, financing methods must be acceptable to the public.

Selecting State and local financing methods that meet the standards we have mentioned will greatly contribute to the success of water resources management in North Carolina. In fact, good financing methods are an essential element in achieving our goals for water resources.

Within the subject area of financing methods, two specific subjects need the most attention in our opinion. Beach protection projects are very expensive and impose a sizeable cost on local governments. The success of these projects depends upon the ability of local governments to raise their share of project cost, and of course also on the availability of the State and Federal shares.

Small watershed projects, or PL-566 projects, also require sizeable contributions by units of local government. The magnitude of these costs is increasing greatly due to the inflation of costs for land, construction, and other items, just as is the case with beach protection projects.

Today's agenda has therefore been focused on the two topics of beach protection and small watershed projects. We are very pleased that a number of experts on these subjects have offered to appear

before the Committee.

Mr. W. Richard Folsche, Assistant State Conservationist for Water Resources, will review the current situation and some problem areas in financing small watershed projects.

Mr. Milton Heath of the Institute of Government will review his investigation of some possible improvements in State legislation that can be made to offer more flexibility in methods of financing small watershed projects.

Mayor Robert Sawyer of Wrightsville Beach will give a local government viewpoint on financing beach protection projects and on their effort to develop new approaches.

Mr. John Hooten of the Department of Natural Resources and Community Development will describe a technical assistance study of beach protection financing methods that he is carrying out at the request of Wrightsville Beach.

Finally, Mr. Jake Wicker of the Institute of Government will review the methods of water resources financing normally used in North Carolina and the advantages and disadvantages of various approaches that should be considered as State and local governments make these choices.

Appendix G

FINANCIAL ASSISTANCE FOR PL-566 PROJECTS

The Soil Conservation Service has provided \$27 million of PL-566 funds (federal) for watershed projects in North Carolina. We estimate \$18 million of other funds (other than PL-566) have also been provided. These other funds are used for technical and financial costs of applying soil conservation measures, buying landrights, utility relocations, road modification and changes, construction, organizational costs, and project and construction administration.

The "other funds" come from other federal programs, state funds, county funds and special district funds (such as drainage districts and watershed improvement districts). Most local funds (local funds are other than state and federal funds) are from taxes or assessments. A few are from gifts.

At the State level watershed sponsors have received assistance from the Department of Transportation for road modification, and from the Department of Natural Resources and Community Development on certain construction activities. Drainage has been cost-shared under this program by the State.

Watershed sponsors provide most of their funds from local sources. Three sources are:

1. Watershed Improvement Districts - Chapter 139, Article II, N. C. General Statutes. Only two of these are active and no more can be organized under this law.
2. County-wide Watershed Tax - Chapter 139, Article III, N. C. General Statutes. Thirty-one counties have this authority.
Tax can be levied up to 25¢ per 100 dollar property valuation.
(Attached sheet shows counties).

3. Drainage District - Chapter 156. All of our watersheds that have been completed in the east have used this method. Objection to this is the cost of organization.

Many of our watersheds receive money from the general fund of counties.

Local financing is a very important part of the small watershed program. After land treatment, landrights, and construction have been completed, the local sponsors are required to operate and maintain all measures at their own expense.

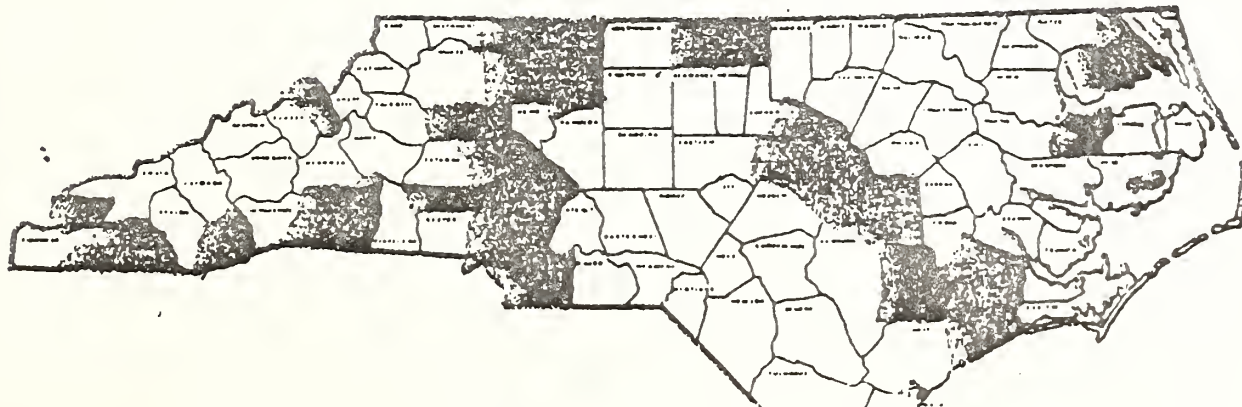
COUNTY WATERSHED PROGRAMS

This list shows the counties in North Carolina that have authority to administer watershed programs under the provisions of Article III of G. S. 139.

<u>COUNTY</u>	<u>AMOUNT OF LEVY *</u>	<u>AUTHORITY</u>
1. Alexander	5¢	Ch. 500, S. L. of 1967
2. Cabarrus	2¢	Ch. 615, S. L. of 1965
3. Camden	-	Ch. 957, S. L. of 1973
4. Caswell	7¢	Ch. 553, S. L. of 1969
5. Clay	2¢	Ch. 1047, S. L. of 1961
6. Duplin	10¢	Referendum
7. Forsyth	2¢	Ch. 761, S. L. of 1963
8. Graham	10¢	Ch. 503, S. L. of 1967
9. Iredell	2¢	Ch. 623, S. L. of 1967
10. Johnston	1¢	Ch. 955, S. L. of 1969
11. Jones	25¢	Referendum
12. Lincoln	3¢	Ch. 934, S. L. of 1969
13. Macon	10¢	Referendum
14. Mecklenburg	2¢	Ch. 1191, S. L. of 1969
15. Mitchell	5¢	Ch. 1033, S. L. of 1963
16. New Hanover	5¢	Ch. 958, S. L. of 1969
17. Onslow	5¢	Ch. 725, S. L. of 1967
18. Pasquotank	-	Ch. 957, S. L. of 1973
19. Person	1¢	Ch. 111, S. L. of 1967
20. Perquimans	-	Ch. 957, S. L. of 1973
21. Polk	7¢	Ch. 996, S. L. of 1963
22. Rowan	2¢	Ch. 563, S. L. of 1967
23. Rutherford	5¢	Referendum
24. Stokes	2¢	Ch. 156, S. L. of 1963
25. Surry	2¢	Ch. 442, S. L. of 1963
26. Transylvania	3½¢	Referendum
27. Union	2¢	Ch. 19, S. L. of 1965 Ch. 390, S. L. of 1967
28. Wake	1¢	Referendum
29. Wayne	3¢	Ch. 821, S. L. of 1969
30. Yadkin	2¢	Ch. 443, S. L. of 1961
31. Washington	10¢	Referendum

* Per \$100 property valuation

Revised 6-15-76 Soil and Water Conservation
Commission, DNER, P. O. Box 27687, Ral., N. C.





Appendix H

TOWN OF WRIGHTSVILLE BEACH

TOWN HALL 400 WAYNICK BOULEVARD • P. O. BOX 626
WRIGHTSVILLE BEACH, N. C. 28480

STUDY OF COSTS TO THE WRIGHTSVILLE BEACH TAXPAYER TO PROVIDE SERVICES TO THE PUBLIC

POLICE DEPARTMENT:

Based on accepted criteria of one (1) officer per 600 people the Department would be reduced by five (5) men (12 to 7). There would be no need for a dog catcher, parking meters, parking lots and related expenses and capital outlay.

Average Salary	\$ 12,856.36
Retirement	995.08
Hospital and Life Insurance	840.00
Social Security	777.80
Uniforms	550.00
Liability and Workmens Comp. Insurance	800.50
Administrative costs including Office, Supplies, Telephone, etc.	1,000.00
	<u>\$ 17,819.24</u> x 5 = \$ 89,096.20

Eliminate two (2) vehicles @ \$6,000.00 ea.	12,000.00
Annual maintenance and operation for two vehicles	5,500.00
Training and Travel and Equipment	5,000.00
Dog Catcher, including benefits	9,447.84
TOTAL - - - - -	<u>\$ 120,944.04</u>

SANITATION DEPARTMENT AND STREET DEPARTMENT:

The cost of clean up behind the visitors to the beach strand and other public areas would be eliminated or reduced.

Frontal beach area	\$ 14,976.00
Parks and Playground areas	3,640.00
	<u>\$ 18,616.00</u>

Additional costs during 16 week summer season	
Boat Dock (Fish boxes and trash)	288.00
Station I, Boat Ramp, North and South Turn	
Arounds and Parking Lots	3,456.00
	<u>\$ 3,744.00</u>

	\$ 22,360.00
Add Supervision and Overhead 15%	<u>3,354.00</u>
TOTAL - - - - -	\$ 25,614.00

Beach access maintenance and Berm fertilization	\$ 5,000.00
30% of Parks and Recreation Budget	\$ 11,400.00

Annual cost of Lifeguard Services	<u>44,000.00</u> *
TOTAL ANNUAL COST - -	\$ 206,958.04

Capital outlay to provide services to the public:

Boat Ramp Land	\$ 3,000.00
Municipal Parking Lot Cost	98,600.00
Improvements to Parking Lot	27,500.00
400 Parking Meters @ \$75.00 ea.	30,000.00
Recreation Park Construction	87,000.00
Radios for four (4) Vehicles	5,000.00
Walkie-Talkies for five (5) men	6,000.00
One 16 cu. yd. Loadpacker	<u>40,000.00</u>

TOTAL CAPITAL OUTLAY -\$ 393,100.00

Ad valorem taxes levied for FY 1977-1978 \$94,680,000.00 @ 52¢ per \$100
valuation - - - - - \$492,336.00

Annual cost of providing services to the public is 42% of the Town's ad valorem tax levy and is 18.23% of the General Fund Budget.

The above costs do not include increased costs related to capital cost, operating cost and amortization for sewage treatment, water supply, solid waste disposal (incineration plant), to name just the major items.

It should be recognized that from the Town's building line eastward is public property and title is claimed by or vested with the State of North Carolina, thus the taxpayers of Wrightsville Beach bear a very sizable financial burden to service what is in effect a State Park, for the benefit of the general public.

* Does not include 25% County subsidy to total Lifeguard Budget.



North Carolina Department of Natural Resources & Community Development

James B. Hunt, Jr., Governor

Howard N. Leé, Secretary

November 10, 1978

Representative Vernon G. James, Co-Chairman
Senator William G. Smith, Co-Chairman
Legislative Study Committee on Financing
Water Resources Development Projects
North Carolina General Assembly
State Legislative Building
Raleigh, North Carolina

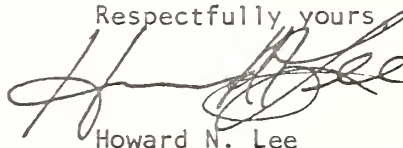
Dear Senator Smith and Representative James:

As requested by your Committee, the Department of Natural Resources and Community Development has prepared recommendations on the subjects assigned to you for study. We have chosen to provide a relatively brief statement that will allow you to get to the heart of the issue quickly. After your Committee has reviewed these recommendations and determined the subjects and policy directions that you wish to include in your report to the General Assembly, we will be ready to offer continuing assistance in preparing the detailed findings and conclusions that will be needed. We are confident that you can count on the assistance of the Institute of Government and of the Attorney General's office in drafting legislation, in addition to our own.

Finding sound methods of financing water resources development projects is essential to the future welfare of our State. We appreciate the opportunity to work with you toward this goal. Please continue to call on us for any help that we can provide.

With kindest regards and best wishes, I am

Respectfully yours,



Howard N. Lee

Department of Natural Resources and Community Development
Recommendations
to the
Legislative Committee on Financing Water Resources Development Projects
November 10, 1978

The Joint Resolution creating the Committee on Financing Water Resources Development Projects directs it to study State and local financial participation in water resources development projects for water supply, flood control, drainage, navigation, beach protection, and recreation. The subject of the study includes projects sponsored by the U. S. Army Corps of Engineers, the U. S. Soil Conservation Service, and the Tennessee Valley Authority, as well as those carried out by State and local government without federal participation. The specific questions to be addressed are:

1. The types of projects to which the State should contribute financially and the percentage share of this contribution.
2. The best methods of financing State and local contributions to water resources development projects.
3. Procedures for authorizing and appropriating funds for projects.

The recommendations of the Department of Natural Resources and Community Development on the three issues assigned to the Committee are as follows:

1. Cost Sharing Policies

The U. S. Army Corps of Engineers and the U. S. Soil Conservation Service have congressionally-established policies on cost sharing. Different cost sharing policies are in effect for different purposes, such as flood control, navigation, drainage, and so forth. Cost sharing policies also differ among project cost elements, such as construction, lands, engineering, and operation and maintenance. The application of these federal cost sharing rules to each specific project leaves a non-federal cost share to be paid by the State, local governments, project beneficiaries, or a combination of these.

Current State policies on cost sharing were established piecemeal over a long period of time. There is no clear, comprehensive statutory or administrative statement of our State cost sharing policies, which leaves participants in the planning and implementation of water resources projects in doubt about the level of State financial support that may be expected. In some cases our policies are inconsistent or inequitable. North Carolina needs to adopt a clear, fair, and up-to-date policy on cost sharing so that all participants - local, State, and federal- may have a sound State policy as a guide for their actions.

The Department of Natural Resources and Community Development believes that State cost sharing policies should be based on the following principles:

1. State financial contributions to water resources development projects are justified by their contribution to the wise management of our water resources and to the State's long range economic development goals.
2. Local governments need State financial assistance with water resources projects due to the large sums of capital funds required for the initial development of these projects.
3. Projects with a similar purpose should be eligible to receive assistance without regard to the particular federal agency involved or the specific project measures used to accomplish the purpose.
4. For projects with primarily local benefits, the beneficiaries or their local governments should pay a somewhat higher share of the non-federal cost than for projects with broad regional benefits.

By applying these principles to current State cost sharing policies, the following problem areas have been identified:

1. The Soil Conservation Service small watershed projects (PL 566) provide for flood prevention and drainage to improve agricultural productivity and to prevent flood damages. Under past policy, the State assists projects which involve stream channel modification because most of these have a non-federal construction cost. The State has not assisted projects which use impoundments for flood prevention, because these projects do not have a non-federal construction cost. Impoundment projects do have large non-federal land acquisition and other costs, however.
2. Drainage, small flood control, beach protection, and recreational navigation projects have primarily local benefits. It is desirable for local governments to bear a somewhat larger share of the non-federal cost of these projects as compared to projects with more widely-distributed benefits.
3. General navigation, large scale flood control, and State-operated recreation projects provide economic benefits over a wide region. A larger State cost share is justified for these projects than for those listed under item 2 above.

The 1978 session of the 1977 General Assembly enacted HB 1224, which responds to some of the problems identified above. The Act provides a statutory basis for State financial assistance to small watershed projects carried out under the PL-566 authority of the U. S. Soil Conservation Service. Under past policy, the State had provided 80 percent of the non-federal cost of construction costs only. The new act lowers the

State contribution to construction costs to 50 percent, but extends State aid to 50 percent of the cost of land rights, engineering fees, water supply, and recreation facilities, and to 75 percent of the cost of the conservation and replacement of fish and wildlife habitat. The Departmental cost sharing recommendations which follow are consistent with HB 1224. Further action by the Study Committee and by the General Assembly is still needed to improve cost sharing policies in areas not covered by HB 1224.

Consistent with these principles and conclusions, the Department proposes consideration of changes in State cost sharing policy as shown in the following table. In each case, the figures are percentages of the non-federal share of project cost or percentages of total project cost where there is no federal involvement. The proposed State share is a maximum allowable percentage which could be adjusted downward if made necessary by a funding shortfall or other reasons.

Present and Proposed State Cost-Sharing Policy(1)

	<u>Present</u>		<u>Proposed</u>	
	<u>State</u>	<u>Local</u>	<u>State</u>	<u>Local</u>
NAVIGATION				
General				
State-sponsored	100%	0	100%	0
Local-sponsored	80%	20%	80%	20%
Recreation.	80%	20%	25%	75%
FLOOD CONTROL				
Land Rights	0	100%	50%(2)	50% (HB 1224)
DRAINAGE				
Construction	80%	20%	50%(3)	50%
STREAM RESTORATION	80%	20%	66 2/3%	33 1/3%
BEACH PROTECTION				
State-owned land and facilities	100%	0	100%	0
Privately-owned beaches with provision for public access	80%	20%	20%	80%
Privately-owned beaches without provision for public access	0	100%	0	100%
RECREATION				
Major State-operated recreation areas	100%	0	100%	0
Recreation facilities at major Corps impoundments operated by local governments				
Land	No policy		50%	50%
Facilities	No policy		50%	50%
Recreation facilities at PL 566 projects operated by local sponsors	0	100%	50%(4)	50% (HB 1224)

Mitigation for loss of fish and wildlife	0	100%	75%	25% (HB 1224)
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WATER SUPPLY

Future water supply storage in flood prevention projects	0	100%	50%	50% (HB 1224)
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- Notes: . (1) The column "present State policies" indicates those policies that prevailed before the passage of HB 1224 in 1978. This Act established State cost sharing percentage for specific components of PL-566 small watershed projects assisted by the Soil Conservation Service. The Department's recommendations are consistent with the authorized cost sharing percentages of HB 1224, which one shown in the "proposed" column with a marginal note.
- (2) For impoundments only. No contribution for stream channel modification land rights.
- (3) To include utility relocations and road relocations not funded by the Department of Transportation.
- (4) To include land and facilities.

II. Financing Methods

After the State and local cost share of each project is established, each participant must raise the necessary funds. The commonly used methods of public finance that we have available to consider include general revenues, special taxes or assessments, general obligation bonds, revenue bonds, and user charges.

The choice of financing methods is a significant issue in public policy just as the cost sharing issue is. Our financing methods should be equitable, that is they should be established in consideration of the distribution of benefits received from public expenditures and ability to pay. Financing methods should also be practical and administratively feasible. Finally, financing methods must be acceptable to the public. The application of these general principles, which are not completely consistent among themselves, is of course difficult.

Within the subject area of financing methods, two specific types of project need the most attention. Major beach protection projects require large financial contributions by local governments. The construction of these projects depends upon the ability of local governments to raise their share of project cost. Small watershed projects and small flood control projects also require sizable contributions by units of local government. The magnitude of these costs is increasing greatly due to the inflation of costs for land, construction, and other items, just as is the case with beach protection projects.

A number of beach towns have taken the lead in actively researching new financing methods appropriate for beach protection expenditures in vacation communities. The ideas under consideration include:

- special property assessment zones based on the degree of erosion hazard and the benefits received
- special taxes on motel and restaurant bills
- an additional one cent sales tax

All of the above special taxes would be dedicated to a permanent beach protection fund for the local cost share of project construction and periodic maintenance.

The Department of Natural Resources and Community Development believes that beach communities must make systematic long-range financial plans for the local cost burden if they desire to participate in beach protection projects. The choice of the method of taxation used for this purpose should be made by each local government according to local preferences and the nature of the local economy. Coastal communities should be commended for the positive action they have taken to study and develop proposals for new local financing methods for beach protection.

Financing the local cost share of small watershed projects and small flood control projects is the other problem area identified by the Department. Under existing statutes, there are two ways to finance these projects. The law on drainage districts (G.S. 156-54 et seq.)

provides a method of establishing a drainage district organization, determining the relative degree of benefits provided to lands within the district by categories, and assessment of charges on each landowner according to the amount of land owned and the degree of benefits received. The drainage district law can work well, but it requires large legal and engineering costs to establish districts and benefit classifications. High costs and attendant delays have been a serious obstacle to some project sponsors.

The soil and water conservation district laws (G.S. 139-1 et seq.) allow for county-wide referenda to finance watershed project construction with county general revenues. Many counties have been successful with the county-wide approach. However, in some cases the voters are reluctant to approve county funds for a project or projects that will benefit only a portion of the county.

To offer local governments more options in financing projects, the following approach has been suggested:

State legislation on county and municipal service districts (G.S. 153A-301 et seq. and 160A-535 et. seq.) authorizes the creation of districts for a number of purposes such as rescue service, beach protection, etc. Authority to establish service districts to finance small watershed and drainage costs could be added to the permitted purposes in the act.

In the area of flood control and watershed projects, as with beach protection projects, the Department believes that local governments should have a wide choice of financing methods to meet local needs. The Department offers to work with the Institute of Government, the Attorney General's Office, and with local and federal agencies in assisting the present study committee to develop sound proposals for statutory improvements.

III. Authorizing and Appropriating State Funds for Projects

The method by which the State commits funds to water resources projects needs to be improved and clarified in some areas.

State participation in federal water resources development projects is authorized by G.S. 143-215.40 and 41. Since the passage of this act, the assignment of responsibilities in State government has been greatly modified by the Executive Organization Acts of 1971 and 1973. The nature of the commitments required of the State has also been changed by federal law. The Department recommends modification of this act as follows:

1. The authority of the Environmental Management Commission to provide assurances of state cooperation under G.S. 143-215.41 should be transferred to the Governor and the Secretary of DNRCD.
2. The list of authorized assurances in G.S. 143-215.41 should be expanded to include contracts for cost-sharing, as now required by federal legislation.

3. The provision that letters of assurance "irrevocably bind" the state and localities should be modified to be consistent with the qualified commitments currently undertaken.
4. Some form of approval by the General Assembly or one of its agents should be required, at least for the larger commitments.

In addition to participation in federal-assisted projects, the Department has a program of small project construction in cooperation with local governments, without federal assistance. The former Board of Water and Air Resources traditionally approved allocations of funds for the projects. A recent opinion from the Attorney General's Office has indicated that this responsibility is assigned to the Secretary of Natural Resources and Community Development, rather than to the Environmental Management Commission (successor to the Board). In any case, review and approval by the Advisory Budget Commission is required to transfer funds to a project account from the reserve account. The Department proposes that the Secretary continue to exercise his budget management responsibility under the Executive Organization Acts, subject to the review and approval of the Advisory Budget Commission.

Appendix J

Present and Proposed State Cost-Sharing Policy(1)

	<u>Present</u>		<u>Proposed</u>	
	<u>State</u>	<u>Local</u>	<u>State</u>	<u>Local</u>
NAVIGATION				
General				
State-sponsored	100%	0	100%	0
Local-sponsored	80%	20%	80%	20%
Recreation	80%	20%	25%	75%
FLOOD CONTROL				
Land Rights	0	100%	50%(2)	50% (HB 1224)
DRAINAGE				
Construction	80%	20%	66 2/3%	33 1/3%
STREAM RESTORATION	80%	20%	66 2/3%	33 1/3%
BEACH PROTECTION				
State-owned land and facilities	100%	0	100%	0
Privately-owned beaches with provision for public access	80%	20%	75%	25%
Privately-owned beaches without provision for public access	0	100%	0	100%
RECREATION				
Major State-operated recreation areas	100%	0	100%	0
Recreation facilities at major Corps impoundments operated by local governments				
Land	No policy		50%	50%
Facilities	No policy		50%	50%
Recreation facilities at PL 566 projects operated by local sponsors	0	100%	50%(4)	50% (HB 1224)

Mitigation for loss of fish and wildlife	0	100%	75%	25% (HB 1224)
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WATER SUPPLY

Future water supply storage in flood prevention projects	0	100%	50%	50% (HB 1224)
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- Notes: . (1) The column "present State policies" indicates those policies that prevailed before the passage of HB 1224 in 1978. This Act established State cost sharing percentage for specific components of PL-566 small watershed projects assisted by the Soil Conservation Service. The Department's recommendations are consistent with the authorized cost sharing percentages of HB 1224, which are shown in the "proposed" column with a marginal note.
- (2) For impoundments only. No contribution for stream channel modification land rights.
- (3) To include utility relocations and road relocations not funded by the Department of Transportation.
- (4) To include land and facilities.

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INTRODUCED BY:

Referred to:

1 A BILL TO BE ENTITLED
2 AN ACT TO CREATE STATUTORY AUTHORITY FOR GRANTS FOR
3 WATER RESOURCES DEVELOPMENT PROJECTS.
4 The General Assembly of North Carolina enacts:
5 Section 1. General Statutes Chapter 143 is amended
6 by adding a new Part 8 to Article 21 to read as follows:
7 "Part 8. Grants for Water Resources Development Projects
8 §143-215.70. Secretary of Natural Resources and Community
9 Development authorized to accept applications. -- The Secretary
10 of the Department of Natural Resources and Community Development
11 is authorized to accept applications for grants for nonfederal
12 costs relating to water resources development projects from
13 units of local government sponsoring such projects.
14 §143-215.71. Purposes for which grants may be requested. --
15 Applications for grants may be made for the nonfederal share of
16 water resources development projects for the following purposes
17 in amounts not to exceed the percentage of the nonfederal costs
18 indicated:
19 (1) General navigation projects that are sponsored by
20 local governments -- eighty percent (80%);
21 (2) Recreational navigation projects -- twenty-five
22 percent (25%);
23 (3) Construction costs for water management (drainage)
24 purposes, including utility and road relocations not

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1 funded by the State Department of Transportation -- sixty-six
2 and two-thirds percent (66 2/3%);

3 (4) Stream restoration -- sixty-six and two-thirds
4 percent (66 2/3);

5 (5) Protection of privately-owned beaches where public
6 access is allowed and provided for -- seventy-five
7 percent (75%);

8 (6) Land acquisition and facility development for
9 recreation sites operated by local governments at
10 U.S. Army Corps of Engineers impoundments -- fifty
11 percent (50%).

12 §143-215.72. Review of applications. --

13 (a) The Secretary shall receive and review applications
14 for the grants specified in this Part and approve,
15 approve in part, or disapprove such applications.

16 (b) In reviewing each application, the Secretary shall
17 consider:

18 (1) The economic, social, and environmental benefits
19 to be provided by the project;

20 (2) Regional benefits of projects to an area greater
21 than the area under the jurisdiction of the local
22 sponsoring entity;

23 (3) The financial resources of the local sponsoring
24 entity;

25 (4) The environmental impact of the project;

26 (5) Any direct benefit to State-owned lands and
27 properties.

28 §143-215.73. Recommendation and Disbursal of Grants. --

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1 After review of grant applications, the Secretary shall forward
2 those approved or approved in part to the Advisory Budget
3 Commission, which shall review the recommendations and approve
4 or disapprove the transfer of funds from the Department's
5 reserve fund into accounts for specific projects. After
6 approval by the Advisory Budget Commission, project funds
7 shall be disbursed and monitored by the Department of Natural
8 Resources and Community Development."

9 Sec. 2. G.S. 139-54(5), as it appears in the 1978
10 Interim Supplement to the General Statutes, is amended by
11 rewriting the second line to read:

12 "purposes, including utility and road relocations
13 not funded by the State Department of Transportation --
14 sixty-six and two-thirds percent (66 2/3%);".

15 Sec. 3. This act shall become effective on July 1,
16 1979.

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Appendix L

EXPLANATION OF WATER PROJECT AMENDMENTS TO MUNICIPAL AND COUNTY SERVICE DISTRICT LAWS

Counties, cities, and other local governments in North Carolina often participate in drainage, flood protection, stream snagging and similar projects for the benefit of their inhabitants. Sometimes these projects have associated recreational or water supply benefits. Collectively, they are referred to as "watershed improvement", "drainage" or "water resources development" projects.

Under present law the principal options for financing the local share of the cost of these projects are benefit assessments levied on the benefited property owners or property taxes levied on the entire county or city. Experience has proven that the benefit assessment route is often unworkable and that a county-wide or city-wide tax often burdens a majority of the residents for the benefit of a minority. Thus some local officials have come to believe that another, more flexible and more workable taxing option should be available for use in some cases.

This bill provides such an option. It would amend both the county and municipal service district acts by adding watershed improvement, drainage and water resources development projects to the authorized purposes of county and municipal service districts. The effect would be that property taxes supporting these projects could be levied exclusively within a service district whose boundaries could be limited to the benefited properties, rather than on the entire county or city.

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INTRODUCED BY:

Referred to:

1 A BILL TO BE ENTITLED
2 AN ACT TO AMEND THE COUNTY AND MUNICIPAL SERVICE DISTRICT
3 ACTS TO INCLUDE WATERSHED IMPROVEMENT, DRAINAGE, AND
4 WATER RESOURCES DEVELOPMENT PROJECTS AS AUTHORIZED DISTRICT
5 PURPOSES.

6 The General Assembly of North Carolina enacts:

7 Section 1. G.S. 153A-301, as found in the 1978
8 Replacement Volume 2D, is amended by adding the following sub-
9 division at the end to read as follows:

10 "(8) Watershed improvement projects, including but not
11 limited to watershed improvement projects as defined in General
12 Statutes Chapter 139; drainage projects, including but not
13 limited to the drainage projects provided for by General Statutes
14 Chapter 156; and water resources development projects, includ-
15 ing but not limited to the federal water resources development
16 projects provided for by General Statutes Chapter 143, Article
17 21."

18 Sec. 2. G.S. 160A-536, as found in the 1977 Supple-
19 ment to Volume 3D, is amended after line 9 by adding the
20 following subdivision to read as follows:

21 "(5) Watershed improvement projects, including but not
22 limited to watershed improvement projects as defined in General
23 Statutes Chapter 139; drainage projects, including but not
24 limited to the drainage projects provided for by General

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1 Statutes Chapter 156; and water resources development projects,
2 including but not limited to the federal water resources
3 development projects provided for by General Statutes Chapter
4 143, Article 21."

5 Sec. 3. This act applies to existing projects and
6 programs as well as new projects and programs. The financing
7 or operation, or both, of a project or program authorized by
8 General Statutes Chapter 139, Article 21 of General Statutes
9 Chapter 143, General Statutes Chapter 156, or any other law,
10 may be discontinued under the law by which it was initiated
11 and may be undertaken by a service district as defined in
12 General Statutes Chapter 153A or 160A.

13 Sec. 4. This act is effective upon ratification.

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SESSION 197

INTRODUCED BY:

Referred to:

1 A BILL TO BE ENTITLED
2 AN ACT TO AMEND THE FEDERAL WATER RESOURCES DEVELOPMENT
3 LAW OF 1969.
4 The General Assembly of North Carolina enacts:
5 Section 1. G.S. 143-215.40(a), as it appears in
6 the 1978 Replacement of Volume 3C, is rewritten to read:
7 "(a) The governing bodies of counties, municipal-
8 ities, and other units of local government are
9 hereby authorized, on behalf of their respective
10 units, to adopt resolutions or ordinances, to
11 enter into contracts, and to appropriate funds to
12 meet the required items of local cooperation for
13 water resources development projects. When the
14 State of North desires to make a required commit-
15 ment of this type to a federal water resources
16 project, the expression of State support during
17 the study and planning stage shall be made by
18 the Secretary of Natural Resources and Community
19 Development. Final State approval of binding
20 contracts to provide items of non-federal coop-
21 eration shall be made by the Secretary of Natural
22 Resources and Community Development with the
23 approval of the Governor and the Advisory Budget
24 Commission."

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1 Sec. 2. G.S. 143-215.41, as it appears in the
2 1978 Replacement of Volume 30, is amended by rewriting the
3 first five lines to read:

4 "Such resolutions, ordinances, acts, orders, or
5 contracts may commit such county, municipality,
6 other unit of local government, or the State of
7 North Carolina to the following when included as
8 requirements of local cooperation for a federal
9 water resources development project:"

10 Sec. 3. G.S. 143-215.41, as it appears in the
11 1978 Replacement of Volume 30, is amended by changing the
12 period at the end of subdivision (11) to a semicolon and by
13 adding a new subdivision (12) to read:

14 "(12) To enter into binding contracts with the federal
15 government to meet non-federal items of cooperation
16 as required by Section 221 of the Federal River and
17 Harbor Act of 1970."

18 Sec. 4. G.S. 143-215.41, as it appears in the
19 1978 Replacement of Volume 30, is amended in the last para-
20 graph by substituting the word, "commit" for the words,
21 "irrevocably bind" in the third line; and by striking from
22 the fourth and fifth lines the words, "the Environmental
23 Management Commission in behalf of".

24 Sec. 5. This act is effective upon ratification.

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